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SUBJECT: CLARK GOVERNMENT ANNOUNCES COMPREHENSIVE PLAN TO
TACKLE CLIMATE CHANGE IN NEW ZEALAND

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11. (SBU) Summary. Prime Minister Helen Clark announced on September 20 her government's plan to significantly reduce New Zealand's greenhouse gas emissions. This comprehensive plan would establish an Emissions Trading Scheme (ETS) designed to impose prices to limit greenhouse gas emissions. The ETS program would be phased-in over the next six years and is intended to halve New Zealand's level of 2007 emissions by 2040. The coin of the ETS realm would be a New Zealand Unit (NZU), which would float in value on international markets. This announcement appears timed to enhance the stature the Labour Government, which recently has been lagging the opposition National Party in the polls. National Party MPs and some smaller party representatives have tentatively endorsed the proposed plan. Media reports since the announcement suggest the battle is on between those want to debate the details concerning the implementation and economic impact of the plan now versus those who would prefer to resolve the realities of ETS after the election. End Summary.

The Announcement

12. (U) On September 20, PM Helen Clark announced at a Wellington press conference an initiative aimed at addressing climate change through an emissions trading scheme designed to reduce New Zealand's contribution to greenhouse gases. Clark kicked off the press conference with an upbeat speech explaining that the purpose of the initiative was to not only meet New Zealand's commitments under the Kyoto Protocol, but also protect New Zealand markets and its reputation as a world leader in environmental practices and policies. The goal, according to Clark, is to halve the level of New Zealand's 2007 emissions by the year 2040 with a minimum of economic impact, and to eventually make New Zealand completely carbon-neutral. Clark claimed that her plan would reduce the growth of New Zealand's GDP by only 0.1 percent between 2005 and 2010. The Minister Responsible for Climate Change David Parker and the Minister of Agriculture and Forestry Jim Anderton followed Clark's comments with power point presentations and details of the plan.

Plan Details

13. (U) According to the speakers, ETS would eventually cover

all sectors of the New Zealand economy and is designed to reduce the emission of all six greenhouse gases addressed under the Kyoto Protocol (carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons, and sulfur hexafluoride). ETS would have a phased-in approach, designed to allow the government and various economic sectors time to prepare for implementation.

¶4. (U) The sectors affected and the timetable for implementation are as follows:

-- Forestry (includes deforestation of pre-1990 forest land and reforestation post-1989): January 2008

-- Liquid fossil fuels (mainly transport): January 2009

-- Stationary energy (mainly coal, gas and geothermal energy): January 2010

-- Industrial processes (non-energy) emissions: January 2013

-- Agriculture (including pastoral and arable farming and horticulture): 2013

-- Waste: 2013

¶5. (U) According to the speakers, applying ETS to the agricultural sector, which generates 49% of all domestic greenhouse gas emissions, would be the most challenging part of the plan) hence, that sector has the longest delay in implementation (2013).

¶6. (U) The ETS unit of trade would be a New Zealand Unit (NZU) issued by the GNZ, and it would hold the same value as one Kyoto Unit (KU) which value will be determined in international trading markets. All New Zealand participants would be required to spend one NZU or one KU to cover each

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metric ton of emissions per year. Participants could hold, carry over and trade NZUs domestically and internationally. The GNZ would, from time to time and as needed, sell NZUs at auction.

¶7. (U) ETS does not include a domestic cap on emissions but New Zealand will be subject to whatever cap is imposed under the Kyoto Protocol. If no Kyoto cap is imposed, then a domestic cap would be considered.

¶8. (U) Compliance under ETS would occur largely through self reporting. However, there would be a central ETS registry with roving inspectors to verify compliance. The exact location of the ETS administrative framework within the GNZ has not yet been proposed.

¶9. (U) The government announced its intent to apply emission obligations as far "upstream" as possible, to facilitate administration of the plan. For example, obligations would be imposed on fuel companies rather than motorists, and on food processors and cooperatives rather than individual farmers. However, the government admitted that the cost of compliance would inevitably trickle down to consumers.

¶10. (U) In conjunction with ETS, the speakers announced that the government proposes to commit 175 million New Zealand Dollars (NZD) over the next five years in support of land management and climate change initiatives. The lion's share of that investment would go to agriculture and forestry, and would include projects for R&D, technology transfer, farmer education, emission monitoring and reporting, irrigation, reforestation, and erosion prevention.

Media Reaction

¶11. (U) Newspaper headlines on September 21 predicted rising

fuel and electricity prices as a result of ETS, forecasting an increase in fuel prices of .04 to .06 NZD per liter by 2009 and a 5% to 10% jump in electricity costs by 2010. In response, Parker dismissed the cited price increases as trivial and called them a "deal" for the public. Parker added that the government's initiative would help make New Zealand a world leader in the use of electric cars, a program which the government would also like to roll out. (Note: There have reportedly been discussions between the GNZ and Japanese auto manufacturers. End note.) Concerning increased electric rates, Finance Minister Michael Cullen promised more details before the elections but commented that there was no need to rush, as electrical generation would not fall under ETS until 2010.

Opposition Reaction

¶12. (U) Some opposition National Party MPs and smaller party representatives have tentatively endorsed the measure in principle. While the government's initiative toward reducing greenhouse gas emissions seems to have broad support, discussions reported in the media suggest that the battle will now be fought between those who will push for more details concerning the implementation and economic impact of the plan now and those who would prefer to resolve the realities of ETS after the election.

What's Next

¶13. (U) The GNZ is conducting a series of ETS workshops and informational meetings throughout the country in October. Clark said that legislation to implement ETS will be submitted to parliament toward the end of the year.

¶14. (SBU) Comment. The release of the Clark government's plan to address global climate change was well-orchestrated, well-prepared and well-executed. The hundreds of attendees each received a large stack of glossy publications explaining ETS and the reasoning behind it -- possibly enough to require several NZUs if the initiative were in effect now. The government's failed 2005 attempt to launch a similar scheme has not been forgotten, but media commentary suggests that the public mood now accepts climate change as an issue requiring action (and sacrifice), and so far the suggested

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price tag is modest. It appears that Clark (who until recently has had great instincts in judging changing public opinion) intended to bolster her party's poor showing in recent polls with this dramatic initiative and enlist public enthusiasm for a plan that will, in the months to come, be dissected and scrutinized. Clark shrewdly included an implementation timetable that commences after the election. Nevertheless, in the year leading up to the election, ETS is likely to become the subject of further media commentary and political debate. End Comment.

¶15. (U) More information concerning ETS can be found at: www.climatechange.govt.nz.
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